

Washington State Auditor's Office
Fraud Investigation Report

**Public Utility District No. 1 of Douglas
County**

Report No. 1006550

Issue Date
October 5, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

October 5, 2011

Public Utility District No. 1 of Douglas County
East Wenatchee, Washington

Report on Governmental Fraud Investigation

Attached is the official report on a misappropriation at Public Utility District No. 1 of Douglas County. On October 20, 2010, the District notified the State Auditor's Office of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the fuel card use at the District from April 20, 2006, through December 19, 2010 to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

Questions about this report should be directed to Fraud Manager Sarah Walker at (509) 454-3621.

BRIAN SONNTAG, CGFM
STATE AUDITOR

BS:

cc: Mr. Zach Gormley, Internal Auditor

Investigation Summary

Public Utility District No. 1 of Douglas County April 20, 2006 through December 19, 2010

ABOUT THE INVESTIGATION

On October 20, 2010, the District notified our Office that it had found fuel purchases charged to a fuel card missing from one of its vehicles. This was the second of two cards the District determined was missing in 2010: one in June and one in September. The District cancelled each of the cards.

When District staff found the second card was missing, the District reviewed card statements and found it had been used at the vendor's Wenatchee fueling station. Fueling at this location by District staff should be infrequent given that Wenatchee is not in Douglas County, where most of the District's operations take place.

The District then reviewed all transactions at that station going back to 2006 and found 251 questionable purchases totaling \$12,914.30. The District contacted local law enforcement and restricted all card use to the vendor's station in East Wenatchee. It also began a weekly review of the vendor's statements to look for unusual transactions.

In November and December of 2010, a video camera used by the vendor at the East Wenatchee station caught on tape a District employee fueling a personal vehicle during a weekend. The camera recorded one transaction in November and two transactions in December, totaling \$213.20.

The District's Internal Auditor compared fuel purchases at the vendor to that employee's leave slips and non-scheduled work time and found 68 fuel transactions had taken place when the employee was not at work. The District also reviewed the job responsibilities and work schedule and noted:

- Employment with the District started in the warehouse, which provided first-hand knowledge of the District's fueling procedures.
- Job responsibilities provided access to fuel cards kept in the vehicles in the District's parking lot.
- The employee worked at different times than other employees, providing the opportunity to use fuel cards kept in vehicles without the knowledge of District staff.

On January 10, 2011 the District met with the employee and showed him pictures of a vehicle fueling at the vendor's East Wenatchee station on three occasions in late 2010. Records show the missing card was used to purchase the fuel. During an interview, the employee stated he had used the card to put fuel in his personal vehicle. He resigned from his position at the District.

We reviewed the District's investigation and examination of fuel card transactions. We found \$742.82 of the \$12,914.30 questionable purchases reported could not be traced to the specific employee.

We also examined the District's internal controls over fuel cards and noted weaknesses that enabled the unallowable use of fuel cards to continue for a number of years without detection:

- District staff does not regularly inventory fuel cards. It only logs in new cards it receives due to expirations or a change in vendor.
- The District writes the fuel card's PIN number on the outside of the card's sleeve and places it in the assigned vehicle.
- Employees do not retain or submit receipts for fuel purchases.
- District staff does not match fuel card purchases to assigned vehicles. We noted one fuel card was used for many vehicles, not just the one to which it was assigned.
- District department heads do not review and initial vehicle log sheets monthly. We judgmentally obtained a log sheet for one vehicle for 2008 and 2009; one vehicle for January and October 2009; and one vehicle for November 2009 and found none of the monthly log sheets were initialed by the department head.
- Employees were not trained in the appropriate use of fuel cards and in documentation requirements.

RESULTS

We conclude that at a minimum a loss of \$12,384.68 occurred between April 20, 2006 and December 19, 2010 and that the employee was responsible for the loss.

RECOMMENDATION

We recommend the District strengthen internal controls over fuel cards to ensure adequate oversight and monitoring to safeguard public resources.

We recommend the District seek recovery of the misappropriated funds and investigation costs of \$3,144 from the former employee and/or the District's bonding company, as appropriate. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney Jean Wilkinson is the contact person for the Attorney General's Office and she can be reached at (360) 586-0812 or jeanw@atg.wa.gov. The contact for the State Auditor's Office is Jan Jutte, Director of Legal Affairs, who can be reached at (360) 902-0363 or juttej@sao.wa.gov.

DISTRICT'S RESPONSE

Douglas PUD agrees with the findings and recommendation outlined in this report.

STATE AUDITOR'S OFFICE REMARKS

We thank District officials and personnel for their assistance and cooperation during the investigation.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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